



UTAH TAX REVIEW COMMISSION

436 State Capitol • P.O. Box 140121 • Salt Lake City, Utah 84114-0121
(801) 538-1032 • Fax (801) 538-1712
<http://www.le.state.ut.us>

S.J.R. 6 Study Requirements and Tentative Findings¹ Sales and Use Tax, Property Tax, and Corporate Franchise and Income Tax Exemptions

IHC Hospitals

As Adopted November 15, 2002

S.J.R. 6 Study Requirement	Tentative Finding
Review the cost of the exemptions.	<u>Estimated 2001 Cost of Exemptions:</u> Property: \$13,183,549 Sales and Use: \$16,894,841 Income: \$3,467,705 Total \$33,546,095
Review the purpose and effectiveness of the exemptions.	Tax exemptions are usually granted to religious and charitable organizations to support them in their mission to provide services to the community. If these organizations did not exist, it is conceivable that governmental entities would be obligated to provide most if not all of these services. Since Utah does not have a statewide network of public hospitals, it must rely primarily on private hospitals (both nonprofit and investor owned) to provide hospital care to indigent persons.
Determine whether the exemptions benefit the state.	<p>Based on the information it has received, the TRC finds that the exemptions result in a net benefit to the state.</p> <p>IHC reports that it provided \$37,638,336 in hospital charity care in 2001. In addition to this charity care, Intermountain Health Care Inc. also operates community clinics for under-served populations, donates surplus property and equipment, provides health education, and makes cash contributions to nonprofit organizations.</p> <p>Another benefit are the comparatively low prices charged by IHC Hospitals. Utah has the lowest per person hospital spending in the nation. While there are many factors other than price that are the cause of this low spending, Utahns do benefit from this lower cost care.</p> <p>A third benefit to the state are the rural hospitals owned and operated by IHC Hospitals. It is likely that if IHC did not own and operate these hospitals that they would not exist or would be replaced by county-owned hospitals. In fact two counties and one city impose a 1 percent sales tax to support their public hospitals. While it is true that these rural hospitals are a referral base for IHC's secondary and tertiary care hospitals, they also provide essential primary care to the community's residents and the many tourists who visit these areas.</p>

S.J.R. 6 Study Requirement	Tentative Finding
Determine whether the exemptions result in an unfair competitive advantage.	The TRC finds that the exemptions do not give IHC Hospitals an unfair competitive advantage over investor owned hospitals. While IHC Hospitals have a 56 percent market share, this is due primarily to historical factors. Investor owned hospitals have initially entered Utah by both building new hospitals and purchasing hospitals from religious organizations. These investor owned hospitals were aware of IHC's controlling market share and still decided to invest here. Investor owned hospitals operate in both urban and rural areas of the state.
Review the taxes (sales and use, property, and income) imposed on entities similar to IHC Hospitals.	<u>Estimated 2001 Taxes Paid/Collected by Investor Owned Hospitals:²</u> Property: \$3,690,886 Sales and Use: \$6,929,021 Income: ³ \$3,065,886 Total \$13,685,793
Determine whether IHC Hospitals should contribute to funding public education, higher education, or both.	No contribution should be required at this time.
Determine whether the any of the exemptions should be continued, modified, or repealed.	For the present time, all current tax exemptions should be continued.

1. Because the study required under S.J.R. 6 is not required to be completed prior to November 2003, the TRC has adopted a process that it will make tentative decision regarding each entity at the conclusion of its study of that entity. However, it reserves the right to make final determination at the end of the two year process.

2. These calculations are based on property values, taxable purchases and sales, and net income information provided by the hospitals. There are 13 investor owned general acute care hospitals in Utah. Except for one hospital, they are owned by three hospital organizations: Lifepoint (Castleview and Ashley Valley Hospitals), IASIS (Jordan Valley, Salt Lake Regional, Davis, and Pioneer Valley Hospitals), and MountainStar (Lakeview, St. Mark's, Ogden Regional, Timpanogos, Mountain View, and Brigham City Hospitals). The investor owned hospital in Tooele is not included in this calculation.

3. One investor owned hospital organization did not report its retained earnings. The corporate income tax liability of this organization has been estimated.